

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Port Austin Area Sewer and Water Authority	County Huron
Audit Date 2/28/05	Opinion Date 8/2/05	Date Accountant Report Submitted to State: 8/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Brining & Nartker, P.C.			
Street Address 64 Westland Drive		City Bad Axe	State MI
Accountant Signature <i>Brining & Nartker, P.C. by: Douglas P. Brining CPA</i>		ZIP 48413	Date 8/30/05

**PORT AUSTIN AREA SEWER
AND WATER AUTHORITY
PORT AUSTIN, MICHIGAN**

**FINANCIAL REPORT
FEBRUARY 28, 2005**

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
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FEBRUARY 28, 2005**

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BRINING & NARTKER, P.C.

Certified Public Accountants

DOUGLAS P. BRINING, CPA

JOSEPH H. NARTKER, CPA

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JOY A KERR, CPA

EDWARD J. MOORE, CPA

To the Authority Members

Port Austin Area Sewer and Water Authority

Port Austin, Michigan

INDEPENDENT AUDITORS' REPORT

Members of

Michigan Association of
Certified Public Accountants

American Institute of
Certified Public Accountants

We have audited the accompanying financial statements of the business-type activities of the Port Austin Area Sewer and Water Authority as of and for the year ended February 28, 2005. These financial statements are the responsibility of the management of the Port Austin Area Sewer and Water Authority. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not prepared their discussion and analysis information for the Port Austin Area Sewer and Water Authority. This discussion is required by U.S. generally accepted accounting principles as supplemental information.

In our opinion, except for the omission of management's discussion and analysis as discussed in the previous paragraph, which results in an incomplete presentation, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Port Austin Area Sewer and Water Authority as of February 28, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted, as of February 28, 2005.

Our audit was conducted for the purpose of forming an opinion on the business-type activities financial statements taken as a whole. The accompanying additional information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRINING & NARTKER, P.C.
Certified Public Accountants

August 5, 2005

FINANCIAL STATEMENTS

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
STATEMENT OF NET ASSETS
FEBRUARY 28, 2005

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 28,007
Receivables:	
Usage	76,718
Special assessment	34,621
Other	20,406
Inventory	13,988
Prepaid expense	16,410

TOTAL CURRENT ASSETS	<u>190,150</u>
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NONCURRENT ASSETS:

Investments-savings (restricted)	303,999
Special assessments (restricted)	201,800
Capital assets - net of accumulated depreciation	3,753,603

TOTAL NONCURRENT ASSETS	<u>4,259,402</u>
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TOTAL ASSETS	<u>4,449,552</u>
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LIABILITIES

CURRENT LIABILITIES:

Accounts payable	82,141
Current portion of deferred assessment revenue	34,621
Current portion of long-term debt	50,000

TOTAL CURRENT LIABILITIES	<u>166,762</u>
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NONCURRENT LIABILITIES:

Long-term portion of deferred assessment revenue	201,800
Bonds payable	150,000

TOTAL NONCURRENT LIABILITIES	<u>351,800</u>
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TOTAL LIABILITIES	<u>518,562</u>
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NET ASSETS

Invested in capital assets, net of related debt	3,553,603
Restricted	540,420
Unrestricted	(163,033)
TOTAL NET ASSETS	<u>\$ 3,930,990</u>

The accompanying notes are an integral part of the financial statements.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED FEBRUARY 28, 2005**

OPERATING REVENUES:	
Charges for services	\$ 504,232
Other	16,758
TOTAL OPERATING REVENUES	<u>520,990</u>
OPERATING EXPENSES:	
Contractual services:	
Management services	414,924
Legal	3,097
Audit and engineering	4,897
Board fees	2,340
Insurance	21,455
Other	11,208
Depreciation	173,682
TOTAL OPERATING EXPENSES	<u>631,603</u>
OPERATING INCOME (LOSS)	<u>(110,613)</u>
NONOPERATING REVENUES (EXPENSES):	
Special assessments	40,948
Interest income	26,574
Interest expense	(49,670)
Reimbursement of prior costs incurred on behalf of the Huron Regional Water Authority	119,168
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>137,020</u>
INCOME BEFORE TRANSFERS	<u>26,407</u>
TRANSFERS:	
Loss on transfer of net assets over debt to Huron Regional Water Authority	(153,831)
CHANGE IN NET ASSETS	<u>(127,424)</u>
NET ASSETS - BEGINNING OF YEAR	4,058,414
NET ASSETS - END OF YEAR	<u><u>\$ 3,930,990</u></u>

The accompanying notes are an integral part of the financial statements.

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 520,647
Payments to suppliers	(451,510)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>69,137</u>
CASH FLOWS FROM NONCAPITAL FINANCING	
ACTIVITIES:	
Reimbursement Huron Regional Water Authority	<u>119,168</u>
CASH FLOWS FROM CAPITAL AND RELATED	
FINANCING ACTIVITIES:	
Interest expense	(49,670)
Payment of borrowing	(1,122,650)
Special assessments received	40,948
NET CASH PROVIDED (USED) BY CAPITAL AND	
RELATED FINANCING ACTIVITIES	<u>(1,131,372)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(122,932)
Net book value of assets transferred	1,214,631
Interest revenue	26,574
Loss on transfer of assets	(153,833)
NET CASH PROVIDED BY INVESTING	<u>964,440</u>
ACTIVITIES	
NET INCREASE IN CASH AND	
CASH EQUIVALENTS DURING THE YEAR	<u>21,373</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	6,634
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 28,007</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS)	
TO NET CASH PROVIDED BY	
OPERATING ACTIVITIES:	
Operating income (loss)	\$ (110,613)
Adjustments to reconcile operating income	
(loss) to net cash provided by	
operating activities:	
Depreciation	173,682
(Increase) decrease in receivables	(343)
(Increase) decrease in prepaid expenses	(63)
Increase (decrease) in accounts payable	6,474
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 69,137</u></u>

The accompanying notes are an integral part of the financial statements.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. DESCRIPTION OF AUTHORITY OPERATIONS

The Authority operates under an appointed board (four by the Village of Port Austin and one by Port Austin Township) and provides wastewater collection and treatment services to Village and Township residents and the surrounding area as authorized by its ordinance.

From 1981 through 1984, grant monies and construction were recorded in a construction fund of Port Austin Area Sewer and Water Authority. As of June 1983, assets constructed, along with related obligations, were transferred by action of the Authority to the enterprise fund, concurrent with initiation of facility operations.

As is discussed in Note 6, the Authority entered into a water supply system management contract with the Village of Port Austin, effective March 1, 1996, giving them management responsibility for 40 years.

B. REPORTING ENTITY

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, certain other governmental organizations are not considered to be part of the Authority entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements are discussed in the following paragraph.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

On this basis, the financial statements of the Village of Port Austin, which operates autonomously, are not included in the financial statements of the Authority and the Authority is not considered to be a component unit of the Village.

C. BASIS OF PRESENTATION

The financial activities of the Authority are recorded in a fund categorized and described as follows:

PROPRIETARY FUND TYPE:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Property, Plant, and Equipment - Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the respective class of assets, ranging from 10 to 50 years.

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2005
(CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Inventory - Inventory in the Enterprise Fund is valued at the lower of cost (first-in, first-out) or market. The cost is recorded as an expense at the time individual inventory items are consumed.

Restricted Investments and Assessments - A portion of the investments and special assessments of the Water System and Sewer System Funds are classified as restricted because their use is limited. The restrictions are due to bond resolution requirements or to segregate funds for specific purposes.

D. MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital assets (net of related debt), restricted and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

E. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

F. ACCOUNTING ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - CASH AND TEMPORARY INVESTMENTS:

In accordance with Michigan Compiled Laws, the Port Austin Area Sewer and Water Authority is authorized to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC); commercial paper rated in the three highest classifications of two rating services; United States government or federal agency obligation repurchase agreements, and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

As Of February 28, 2005, the carrying amount of cash was \$332,006, which consists of deposits in savings accounts, deposit accounts and checking accounts, and is insured for \$100,000 by the FDIC. The bank balance was \$332,178, as of February 28, 2005.

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2005
(CONTINUED)

NOTE 3 - CAPITAL ASSETS:

Capital asset activity for the year ended February 28, 2005, was as follows:

	BALANCE MARCH 1, <u>2004</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	BALANCE FEBRUARY 28, <u>2005</u>
SANITARY SEWER SYSTEM:				
Capital assets not being depreciated:				
Land - at cost	\$ 51,225	\$ -	\$ -	\$ 51,225
Capital assets being depreciated - at cost:				
Sewer facility planning and system	4,142,886	-	-	4,142,886
Sewer plant	2,200,415	-	-	2,200,415
Equipment	168,126	-	-	168,126
Furniture and fixtures	61,706	-	-	61,706
	<u>6,573,133</u>	<u>-</u>	<u>-</u>	<u>6,573,133</u>
Less accumulated depreciation:				
Sewer facility planning and system	1,666,980	84,072	-	1,751,052
Sewer plant	901,964	44,581	-	946,545
Equipment	136,630	9,701	-	146,331
Furniture and fixtures	61,201	-	-	61,201
	<u>2,766,775</u>	<u>138,354</u>	<u>-</u>	<u>2,905,129</u>
Total capital assets being depreciated - net	<u>3,806,358</u>	<u>138,354</u>	<u>-</u>	<u>3,668,004</u>
WATER SYSTEM:				
Capital assets not being depreciated:				
Land - at cost	209,645	-	(209,645)	-
Capital assets being depreciated - at cost:				
Water treatment plant	368,446	-	-	368,446
Water tower	146,100	-	-	146,100
Equipment	94,660	-	-	94,660
Water intake	1,475,000	-	(1,475,000)	-
	<u>2,084,206</u>	<u>-</u>	<u>(1,475,000)</u>	<u>609,206</u>
Less accumulated depreciation:				
Water treatment plant	355,839	2,295	-	358,134
Water tower	126,611	2,016	-	128,627
Equipment	84,119	3,952	-	88,071
Water intake	442,949	27,065	470,014	-
	<u>1,009,518</u>	<u>35,328</u>	<u>470,014</u>	<u>574,832</u>
Total capital assets being depreciated - net	<u>1,074,688</u>	<u>35,328</u>	<u>(1,004,986)</u>	<u>34,374</u>
TOTAL CAPITAL ASSETS - NET	<u><u>\$ 5,141,916</u></u>	<u><u>\$ 173,682</u></u>	<u><u>\$(1,214,631)</u></u>	<u><u>\$ 3,753,603</u></u>

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2005
(CONTINUED)**

NOTE 3 - CAPITAL ASSETS: (Continued)

Included in expenses were depreciation charges totaling the following:

Sanitary Sewer Enterprise Fund	\$ 138,354
Water Systems Enterprise Fund	<u>\$ 35,328</u>

NOTE 4 - ASSESSMENTS RECEIVABLE:

In conjunction with the construction of the sanitary sewer facilities, the Port Austin Area Sewer and Water Authority sold bonds to finance 20% of said construction. To retire these bonds, assessments have been assigned to the benefited properties.

Assessments receivable are carried as accounts receivable from the benefited property owners. The receivables carry an interest rate of 6% and amounted to \$236,421 at February 28, 2005. The assessments receivable are restricted for payment of the outstanding Sewage Disposal System Limited Tax General Obligation Bonds.

NOTE 5 - LONG-TERM DEBT:

The following is a summary of changes in long-term debt of the Authority's business-type activities for the year ended February 28, 2005:

	BALANCE MARCH 1, <u>2004</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	BALANCE FEBRUARY 28, <u>2005</u>	AMOUNTS DUE WITHIN <u>ONE YEAR</u>
WATER SYSTEM FUND:					
1995 Water Revenue Bonds	\$ 923,000	\$ -	\$ 923,000	\$ -	\$ -
Land contract payable	149,650	-	149,650	-	-
TOTAL WATER SYSTEM FUND	<u>1,072,650</u>	<u>-</u>	<u>1,072,650</u>	<u>-</u>	<u>-</u>
SEWER SYSTEM FUND:					
Sewage Disposal System Bonds	250,000	-	50,000	200,000	50,000
TOTAL	<u>\$ 1,322,650</u>	<u>\$ -</u>	<u>\$ 1,122,650</u>	<u>\$ 200,000</u>	<u>\$ 50,000</u>

The 1995 Water Revenue Bonds and the land contract payable were paid with funds provided by USDA Rural Development through the Huron Regional Water Authority. The Port Austin Sewer and Water Authority transferred the water intake system and land to the Huron Regional Water Authority, with the related debt being paid off by U.S.D.A. Rural Development funds.

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2005
(CONTINUED)**

NOTE 5 - LONG-TERM DEBT: (Continued)

Significant details regarding outstanding long-term debt are presented below:

Sewer System Fund Sewage Disposal System Bonds

The bonds were issued from December 3, 1981 through May 17, 1984 and are payable in annual payments according to the following schedule plus 5% interest through May 1, 2008:

<u>YEAR ENDING FEBRUARY 28,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2006	\$ 50,000	\$ 8,750
2007	50,000	6,250
2008	50,000	3,750
2009	50,000	1,250
	<u>\$ 200,000</u>	<u>\$ 20,000</u>

On April 5, 2005, \$130,000 of the above bonds were paid.

NOTE 6 - WATER SUPPLY SYSTEM MANAGEMENT CONTRACT:

Effective March 1, 1996 the Port Austin Area Sewer and Water Authority entered into a water supply system management contract with the Village of Port Austin and the Township of Port Austin. Major elements of the agreement are as follows:

- The Authority will manage, operate, maintain and administer the water system for the Village and the Township and will comply with all requirements of the Rural Economic and Community Development Agency of the United States Department of Agriculture relative to outstanding Village bonds.
- Rates charged to customers will be recommended by the Authority and adopted by ordinance in each local unit.
- The Authority will prepare the annual budget.
- The Authority will prepare an annual report of its management of the water system and have an annual audited financial report.
- The local units will hold legal title to the system for assets transferred at the onset of the agreement.
- The term of the agreement is 40 years.

Because of the term of the agreement, the former Water Fund in the Village of Port Austin is now being reported upon in the financial statements of the Port Austin Area Sewer and Water Authority.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2005
(CONTINUED)**

NOTE 7 – REGIONAL WATER AUTHORITY MANAGEMENT CONTRACT:

On April 1, 2004 the Village of Port Austin (with which the Authority has an exclusive water supply management contract) and the City of Bad Axe entered into a management contract with a newly formed Huron Regional Water Authority. The purpose of the contract is to supply lake water to the City, the Village and immediate surrounding areas. Major provisions of the 40 year contract include the following:

- 1) Construction of shared facilities, primarily a new treatment plant and a new pumping station.
- 2) The Authority deeded the water intake system and land to the Huron Regional Water Authority.
- 3) The Huron Regional Water Authority paid off bonds related to the intake system totaling \$923,000 and also paid off a land contract on the land totaling \$149,650.
- 4) The Huron Regional Water Authority reimbursed the Authority for \$119,168 of prior period costs advanced.
- 5) The Huron Regional Water Authority will be responsible for operation and maintenance of all shared facilities (water intake, treatment plant and pumping and transmission lines to the local units of government).
- 6) The City of Bad Axe and the Port Austin Area Sewer and Water Authority will purchase water from the Huron Regional Water Authority and will be responsible for their own local distribution and billing.

The facilities at the new Huron Regional Water Authority are expected to be completed by October or November, 2005.

NOTE 8 - SERVICE AGREEMENT:

During the year ended February 28, 2002, the Authority entered into an agreement with Wade-Trim Operations Services to provide operational services. The initial term of the agreement is for three years, commencing June 5, 2001, and has renewal options. The annual base fee for the water system and the wastewater system is \$421,062 (billed \$35,089 monthly). Future adjustments to the contract can be negotiated if the Consumer Price Index exceeds 4% or for a greater than 5% increase in utility rates. Additionally, the Authority will pay for all capital expenditures and will maintain general liability, personal injury and property insurance on the facilities. Major services provided by Facilities Management, Inc. include:

- 1) Day to day operational costs of the water and wastewater system, including labor costs, utility costs and chemical costs.
- 2) Preventative and corrective maintenance and repairs, up to \$40,000 per year.
- 3) Perform reading, billing and collection services.
- 4) Acting as the Authority's liaison with local, state, and federal regulatory agencies.

NOTE 9 – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Authority participates with Michigan Community Underwriters for claims related to property loss, natural disasters, general liability, errors and omissions and auto liability. The Insurer operates as a common risk-sharing management program for governmental units in Michigan. Member premiums are used to purchase insurance coverage and to pay member claims in excess of deductible amounts.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2005
(CONTINUED)**

NOTE 10 – SUBSEQUENT EVENTS:

On June 8, 2005, the Authority received correspondence from the Department of Environmental Quality at the State of Michigan (D.E.Q.), mandating that the Authority upgrade its facilities to reduce unwanted elements in the discharge of water from its sewage treatment plant.

The timetable for this upgrade is as follows:

- March 31, 2006 – Submit a preliminary engineering report and develop a funding and financing plan.
- October 31, 2006 – Submit final plans for the facility.
- January 31, 2007 – Receive construction bids.
- December 31, 2007 – Complete construction and obtain appropriate operational level.

The cost and funding requirements of this mandate have not been determined at this time.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY:

For the year ended February 28, 2005, the Authority implemented GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. It creates new basic financial statements which now include financial statements prepared on an accrual basis of accounting. Also the statement requires a management's discussion and analysis letter to offer readers a narrative of the financial statements.

Comparative data has not been presented for the business-type activities, since their inclusion would make the statements unduly complex and difficult to read.

SUPPLEMENTARY INFORMATION

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
COMBINING STATEMENT OF NET ASSETS
FEBRUARY 28, 2005

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 148,991	\$ (120,984)	\$ 28,007
Receivables:			
Usage	47,521	29,197	76,718
Special assessment	-	34,621	34,621
Other	19,828	578	20,406
Inventory	11,640	2,348	13,988
Prepaid expense	5,240	11,170	16,410
TOTAL CURRENT ASSETS	<u>233,220</u>	<u>(43,070)</u>	<u>190,150</u>
NONCURRENT ASSETS:			
Investments-savings (restricted)	102,227	201,772	303,999
Special assessments (restricted)	-	201,800	201,800
Capital assets - net of accumulated depreciation	34,374	3,719,229	3,753,603
TOTAL NONCURRENT ASSETS	<u>136,601</u>	<u>4,122,801</u>	<u>4,259,402</u>
TOTAL ASSETS	<u>369,821</u>	<u>4,079,731</u>	<u>4,449,552</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES:			
Accounts payable	43,679	38,462	82,141
Current portion of deferred assessment revenue	-	34,621	34,621
Current portion of long-term debt	-	50,000	50,000
TOTAL CURRENT LIABILITIES	<u>43,679</u>	<u>123,083</u>	<u>166,762</u>
NONCURRENT LIABILITIES:			
Long-term portion of deferred assessment revenue	-	201,800	201,800
Bonds payable	-	150,000	150,000
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>351,800</u>	<u>351,800</u>
TOTAL LIABILITIES	<u>43,679</u>	<u>474,883</u>	<u>518,562</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	34,374	3,519,229	3,553,603
Restricted	102,227	438,193	540,420
Unrestricted	189,541	(352,574)	(163,033)
TOTAL NET ASSETS	<u>\$ 326,142</u>	<u>\$ 3,604,848</u>	<u>\$ 3,930,990</u>

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
OPERATING REVENUES:			
Charges for services	\$ 300,678	\$ 203,554	\$ 504,232
Other	14,406	2,352	16,758
TOTAL OPERATING REVENUES	<u>315,084</u>	<u>205,906</u>	<u>520,990</u>
OPERATING EXPENSES:			
Contractual services:			
Management services	186,671	228,253	414,924
Legal	2,066	1,031	3,097
Audit and engineering	1,533	3,364	4,897
Board fees	1,170	1,170	2,340
Insurance	6,121	15,334	21,455
Other	5,652	5,556	11,208
Depreciation	35,328	138,354	173,682
TOTAL OPERATING EXPENSES	<u>238,541</u>	<u>393,062</u>	<u>631,603</u>
OPERATING INCOME (LOSS)	<u>76,543</u>	<u>(187,156)</u>	<u>(110,613)</u>
NONOPERATING REVENUES (EXPENSES):			
Special assessments	-	40,948	40,948
Interest income	408	26,166	26,574
Interest expense	(38,420)	(11,250)	(49,670)
Reimbursement of prior costs incurred on behalf of the Huron Regional Water Authority	84,948	34,220	119,168
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>46,936</u>	<u>90,084</u>	<u>137,020</u>
INCOME BEFORE TRANSFERS	<u>123,479</u>	<u>(97,072)</u>	<u>26,407</u>
TRANSFERS:			
Loss on transfer of net assets over debt to Huron Regional Water Authority	(153,831)	-	(153,831)
CHANGE IN NET ASSETS	<u>(30,352)</u>	<u>(97,072)</u>	<u>(127,424)</u>
NET ASSETS - BEGINNING OF YEAR	356,494	3,701,920	4,058,414
NET ASSETS - END OF YEAR	<u><u>\$ 326,142</u></u>	<u><u>\$ 3,604,848</u></u>	<u><u>\$ 3,930,990</u></u>

**PORT AUSTIN SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 313,684	\$ 206,963	\$ 520,647
Payments to suppliers	(185,064)	(266,446)	(451,510)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>128,620</u>	<u>(59,483)</u>	<u>69,137</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Reimbursement Huron Regional Water Authority	<u>84,948</u>	<u>34,220</u>	<u>119,168</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Interest expense	(38,420)	(11,250)	(49,670)
Payment of borrowing	(1,072,650)	(50,000)	(1,122,650)
Special assessments received	-	40,948	40,948
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,111,070)</u>	<u>(20,302)</u>	<u>(1,131,372)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(74,372)	(48,560)	(122,932)
Net book value of assets transferred	1,214,631	-	1,214,631
Interest revenue	408	26,166	26,574
Loss on transfer of assets	(153,833)	-	(153,833)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>986,834</u>	<u>(22,394)</u>	<u>964,440</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	<u>89,332</u>	<u>(67,959)</u>	<u>21,373</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	59,659	(53,025)	6,634
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 148,991</u></u>	<u><u>\$ (120,984)</u></u>	<u><u>\$ 28,007</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 76,543	\$ (187,156)	\$ (110,613)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	35,328	138,354	173,682
(Increase) decrease in receivables	(1,400)	1,057	(343)
(Increase) decrease in prepaid expenses	(517)	454	(63)
Increase (decrease) in accounts payable	18,666	(12,192)	6,474
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 128,620</u></u>	<u><u>\$ (59,483)</u></u>	<u><u>\$ 69,137</u></u>